

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2014**

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Members of the Board
Lewis County School District
Vanceburg, Kentucky

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District, Vanceburg, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, including *Appendix I—Audit Extension Request and Appendix II—Instructions for Submissions of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lewis County School District's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the Lewis County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering Lewis County School Districts' internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", is written over a horizontal line.

Ross and Company, PLLC
November 6, 2014

**LEWIS COUNTY SCHOOL DISTRICT
VANCEBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Lewis County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the General Fund was \$885,138.
- For fiscal year 2014, all employees received a step increase in salary for the year of service performed in fiscal 2013.
- The General Fund had \$17,048,834 in revenue, which primarily consisted of the state funding program (SEEK), property taxes, utility taxes, and motor vehicle taxes. Excluding inter-fund transfers, there was \$17,120,649 in General Fund expenditures. The amounts for revenues and expenditures include On-Behalf payments made by the state for health insurance, life insurance, and retirement. General Fund On-Behalf payments totaled \$3,580,333 for fiscal year 2014.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has a mandated uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The

LEWIS COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2014
(Continued)

District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental or proprietary funds. The District's only proprietary fund is food service operations. All other activities of the district are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. The largest portion of the District's Net Position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2014

The District implemented GASB 34 in fiscal year 2003 and recorded fixed assets and debt for the first time. The following is a comparison of the District's Net Position for the years ending June 30, 2014, and 2013.

	<u>2013</u>	<u>2014</u>
Current Assets	1,645,163	1,172,101
Noncurrent Assets	18,166,383	17,341,553
Total Assets	\$ 19,811,546	\$ 18,513,654
Deferred Outflow	-	263,667
Total Assets & Deferred Outflow	\$ 19,811,546	\$ 18,777,321
Current Liabilities	2,030,312	1,937,406
Long-Term Liabilities	12,972,430	12,046,419
Total Liabilities	\$ 15,002,742	\$ 13,983,825
Total Net Position	\$ 4,808,804	\$ 4,793,496

There has been no significant change in the financial position of the district since the last audit.

Comments on Budget Comparisons

- The general fund's total revenues budgeted for the fiscal year ended June 30, 2014 was \$17,761,810.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$316,184 more than budget or approximately 1.78%.

LEWIS COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
JUNE 30, 2014
(Continued)

The following table presents a summary of the general fund's receipts and expenses for the fiscal year ended June 30, 2014 and 2013.

	<u>2013</u>	<u>2014</u>
Receipts:		
Local Revenue Sources	\$ 2,622,075	2,710,274
State Revenue Sources	10,652,851	14,203,145
Federal Revenue	130,954	135,415
Other Sources	141,765	-
Total Receipts	13,547,645	17,048,834
Expenses:		
Instruction	\$ 7,017,301	9,396,703
Student Support Services	768,365	1,067,116
Instructional Support	287,166	347,583
District Administration	440,727	469,303
School Administration	1,154,608	1,599,501
Business Support	439,258	584,934
Plant Operations	1,607,227	1,575,226
Student Transportation	1,710,943	1,769,584
Other	363,228	310,699
Total Expenses	13,788,823	17,120,649
Receipts in Excess of Expenses	\$ (241,178)	\$ (71,815)

General Fund Receipts

The majority of receipts were derived from state funding 83% with locally generated receipts making up 16% of total receipts.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. The beginning cash balance for beginning the fiscal year is \$957,345. Significant Board actions that will impact 2014-2015 finances include a state mandated 1% increase to all cells of salary schedules, employee step increases due to an additional year of experience, additional employer matching benefit expenses, and uncertainty regarding funding.

The Lewis County School District's current and estimated grant notifications are not anticipated to make a year-to-year material impact upon the remaining funds. Award notifications and estimates are fairly in line with budgeted amounts.

Questions regarding this report should be directed to **Joe Kennedy, Director of Finance/Treasurer** at (606) 796-2811 or by mail at P.O. Box 159, Vanceburg, KY 41179.

LEWIS COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

DISTRICT WIDE

As of June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ (415,610)	\$ 37,119	\$ (378,491)
Investments	526,850	-	526,850
Other current assets	951,428	30,812	982,240
Inventory	-	41,502	41,502
Total current assets	<u>1,062,668</u>	<u>109,433</u>	<u>1,172,101</u>
Non-current Assets			
Land	272,556	-	272,556
Land Improvements	2,055,778	-	2,055,778
Buildings and improvements	24,939,158	-	24,939,158
Furniture and equipment	8,635,360	406,975	9,042,335
Less: Accumulated depreciation	<u>(18,583,812)</u>	<u>(384,462)</u>	<u>(18,968,274)</u>
Total non-current assets	<u>17,319,040</u>	<u>22,513</u>	<u>17,341,553</u>
Total assets	<u>18,381,708</u>	<u>131,946</u>	<u>18,513,654</u>
Deferred outflow	<u>263,667</u>	<u>-</u>	<u>263,667</u>
Total assets & deferred outflow	<u><u>\$ 18,645,375</u></u>	<u><u>\$ 131,946</u></u>	<u><u>\$ 18,777,321</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 84,348	\$ 2,006	\$ 86,354
Deferred revenue	16,221	7,133	23,354
Interest payable	405,324	-	405,324
Current portion of long-term obligations	940,000	-	940,000
Current portion of capital lease obligations	349,816	-	349,816
Current portion of sick-leave	135,359	-	135,359
Other current liabilities	<u>(2,801)</u>	<u>-</u>	<u>(2,801)</u>
Total current liabilities	<u>1,928,267</u>	<u>9,139</u>	<u>1,937,406</u>
Non-current Liabilities			
Non-current portion of long-term obligations	10,335,000	-	10,335,000
Non-current portion of capital lease obligations	1,525,778	-	1,525,778
Non-current portion of accrued sick leave	<u>185,641</u>	<u>-</u>	<u>185,641</u>
Total non-current liabilities	<u>12,046,419</u>	<u>-</u>	<u>12,046,419</u>
Total liabilities	<u>13,974,686</u>	<u>9,139</u>	<u>13,983,825</u>
NET POSITION			
Invested in capital assets, net of related debt	4,168,446	22,513	4,190,959
Restricted for:			
Capital Projects	7,555	-	7,555
Other	175,860	100,294	276,154
Unrestricted Fund Balance	<u>318,828</u>	<u>-</u>	<u>318,828</u>
Total net position	<u>4,670,689</u>	<u>122,807</u>	<u>4,793,496</u>
Total liabilities and net position	<u><u>\$ 18,645,375</u></u>	<u><u>\$ 131,946</u></u>	<u><u>\$ 18,777,321</u></u>

See accompanying notes to financial statements.

LEWIS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

DISTRICT WIDE

For the year ended June 30, 2014

Program Revenues

Changes in Net Position

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Governmental Activities							
Instruction	\$ 12,453,287	\$ 49,426	\$ 2,077,854	\$ -	\$ (10,326,007)	\$ -	\$(10,326,007)
Support services:							
Student	1,295,306	-	228,190	-	(1,067,116)	-	(1,067,116)
Instruction staff	602,209	-	254,626	-	(347,583)	-	(347,583)
District administrative	588,008	-	108,127	-	(479,881)	-	(479,881)
School administrative	1,585,283	-	347	-	(1,584,936)	-	(1,584,936)
Business	613,063	-	27,895	-	(585,168)	-	(585,168)
Plant operation and maintenance	1,430,308	-	-	-	(1,430,308)	-	(1,430,308)
Student transportation	2,035,243	-	739	-	(2,034,504)	-	(2,034,504)
Facilities acquisition and construction	138,210	-	-	-	(138,210)	-	(138,210)
Community Service Activities	220,452	-	220,352	-	(100)	-	(100)
Other	9,234	-	-	-	(9,234)	-	(9,234)
Interest on long-term debt	391,666	-	-	-	(391,666)	-	(391,666)
Total governmental activities	<u>21,362,269</u>	<u>49,426</u>	<u>2,918,130</u>	<u>-</u>	<u>(18,394,713)</u>	<u>-</u>	<u>(18,394,713)</u>
Business-type Activities							
Food service	1,489,485	257,643	1,282,304	-	-	50,462	50,462
Total business-type activities	<u>1,489,485</u>	<u>257,643</u>	<u>1,282,304</u>	<u>-</u>	<u>-</u>	<u>50,462</u>	<u>50,462</u>
Total school district	<u>\$ 22,851,754</u>	<u>\$ 307,069</u>	<u>\$ 4,200,434</u>	<u>\$ -</u>	<u>\$ (18,394,713)</u>	<u>\$ 50,462</u>	<u>\$(18,344,251)</u>
General Revenues							
Property taxes					\$ 1,980,046	\$ -	\$ 1,978,256
Delinquent property tax					38,777	-	40,567
Motor vehicle taxes					333,852	-	333,852
Unmined minerals tax					272	-	272
Utility taxes					539,962	-	539,962
Investment earnings					4,846	87	4,933
State aid formula grants					15,496,021	-	15,496,021
Miscellaneous					59,989	-	59,989
Transfers					63,169	(63,169)	-
Total general revenues					<u>18,516,934</u>	<u>(63,082)</u>	<u>18,453,852</u>
Change in net position					122,221	(12,620)	109,601
Net position - beginning					4,673,377	135,427	4,808,804
Prior Period Adjustment					(124,909)	-	(124,909)
Net position - ending					<u>\$ 4,670,689</u>	<u>\$ 122,807</u>	<u>\$ 4,793,496</u>

See accompanying notes to financial statements.

LEWIS COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014

	General Fund	Special Revenue	Construction	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ (25,579)	\$ (397,586)	\$ 7,555	\$ (415,610)
Investments	526,850	-	-	526,850
Prepaid Expenditures	30,409	-	-	30,409
Other receivables	480,965	440,054	-	921,019
Total assets	<u>\$ 1,012,645</u>	<u>\$ 42,468</u>	<u>\$ 7,555</u>	<u>\$ 1,062,668</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 58,101	\$ 26,247	\$ -	\$ 84,348
Deferred revenue	-	16,221	-	16,221
Other current liabilities	(2,801)	-	-	(2,801)
Total liabilities	<u>55,300</u>	<u>42,468</u>	<u>-</u>	<u>97,768</u>
Fund Balances				
Nonspendable				
Prepays	30,409	-	-	30,409
Restricted				
Future Construction	-	-	7,555	7,555
Committed				
Sick Leave Payable	135,359	-	-	135,359
Assigned				
Purchase Obligations	10,092	-	-	10,092
Unassigned	781,485	-	-	781,485
Total fund balances	<u>957,345</u>	<u>-</u>	<u>7,555</u>	<u>964,900</u>
Total liabilities and fund balances	<u>\$ 1,012,645</u>	<u>\$ 42,468</u>	<u>\$ 7,555</u>	<u>\$ 1,062,668</u>

See accompanying notes to financial statements.

LEWIS COUNTY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS -
BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance-Governmental Funds			\$ 964,900
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental:			
Cost of capital	\$	35,902,852	
Accumulated depreciation		(18,583,812)	
Deferred outflow		<u>263,667</u>	17,582,707
Long-term liabilities including bonds payable are not due and payable in the current period and therefore are not reported as liabilities in the funds:			
Long-term bond obligation		(11,275,000)	
Long-term capital lease obligation		(1,875,594)	
Interest payable		(405,324)	
Long-term sick leave		<u>(321,000)</u>	<u>(13,876,918)</u>
Total Net Position-Governmental Funds			<u>\$ 4,670,689</u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Property taxes	\$ 1,742,919	\$ -	\$ -	\$ 275,904	\$ 2,018,823
Motor vehicle taxes	333,852	-	-	-	333,852
Utility taxes	539,962	-	-	-	539,962
Unmined minerals taxes	272	-	-	-	272
Earnings on investments	4,846	-	-	-	4,846
Other local revenues	88,423	-	-	-	88,423
State sources					
SEEK	10,573,265	-	-	707,834	11,281,099
On Behalf Payments	3,580,333	-	-	449,627	4,029,960
Other	49,547	860,427	-	-	909,974
Federal	135,415	2,057,703	-	-	2,193,118
Total revenues	<u>17,048,834</u>	<u>2,918,130</u>	<u>-</u>	<u>1,433,365</u>	<u>21,400,329</u>
Expenditures					
Instruction	9,396,703	2,071,853	-	-	11,468,556
Support services					
Student	1,067,116	228,190	-	-	1,295,306
Instruction staff	347,583	254,626	-	-	602,209
District administration	469,303	108,127	-	-	577,430
School administration	1,599,501	347	-	-	1,599,848
Business	584,934	27,895	-	-	612,829
Plant operation and maintenance	1,575,226	-	-	-	1,575,226
Student transportation	1,769,584	739	-	-	1,770,323
Facilities acquisition and construction	-	-	138,210	-	138,210
Community Service Activities	100	220,352	-	-	220,452
Debt service	307,845	-	-	1,379,505	1,687,350
Other expenditures	2,754	-	-	-	2,754
Total expenditures	<u>17,120,649</u>	<u>2,912,129</u>	<u>138,210</u>	<u>1,379,505</u>	<u>21,550,493</u>
Excess (deficit) of revenues over expenditures	<u>(71,815)</u>	<u>6,001</u>	<u>(138,210)</u>	<u>53,860</u>	<u>(150,164)</u>
Other Financing Sources (Uses)					
Other financing sources- Not transfers	20,992	-	-	-	20,992
Operating transfers in	123,030	-	-	929,878	1,052,908
Operating transfers out	-	(6,001)	-	(983,738)	(989,739)
Total other financing sources (uses)	<u>144,022</u>	<u>(6,001)</u>	<u>-</u>	<u>(53,860)</u>	<u>84,161</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>72,207</u>	<u>-</u>	<u>(138,210)</u>	<u>-</u>	<u>(66,003)</u>
Net change in fund balances	<u>72,207</u>	<u>-</u>	<u>(138,210)</u>	<u>-</u>	<u>(66,003)</u>
Fund balance, July 1, 2013	<u>885,138</u>	<u>-</u>	<u>145,765</u>	<u>-</u>	<u>1,030,903</u>
Fund balance, June 30, 2014	<u>\$ 957,345</u>	<u>\$ -</u>	<u>\$ 7,555</u>	<u>\$ -</u>	<u>\$ 964,900</u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Total net change in fund balances- governmental funds	\$ (66,003)
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.	(1,117,850)
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount by which bond proceeds exceed principal payments.	1,254,816
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In the statement of activities, certain operating expenses such as compensated absences (sick leave), are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year special termination benefits paid exceed the amounts earned.	16,870
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Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure in the fund when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds and bond issue cost expensed.	<u>34,388</u>
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Change in Net Position - Governmental Funds	<u><u>\$ 122,221</u></u>
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See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

As of June 30, 2014

ASSETS	<u>Food Service Fund</u>
Current Assets	
Cash and cash equivalents	\$ 37,119
Other receivables	30,812
Inventory	<u>41,502</u>
Total current assets	<u>109,433</u>
Noncurrent Assets	
Furniture and equipment	406,975
Less: Accumulated depreciation	<u>(384,462)</u>
Total noncurrent assets	<u>22,513</u>
Total assets	<u><u>\$ 131,946</u></u>
 LIABILITIES	
Current Liabilities	
Accounts payable	\$ 2,006
Deferred Revenue	<u>7,133</u>
Total current Liabilities	<u>9,139</u>
Total liabilities	<u>9,139</u>
 NET POSITION	
Invested in capital assets, net of related debt	22,513
Restricted for:	
Inventories	41,502
Other	400
Net Position	<u>58,392</u>
Total net position	<u>122,807</u>
Total liabilities and net position	<u><u>\$ 131,946</u></u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2014

	Food Service Fund
Operating Revenues	
Service sales	\$ 257,643
Total operating revenues	<u>257,643</u>
Operating Expenses	
Salaries and wages	778,242
Professional and contract services	18,871
Supplies and materials	688,457
Depreciation	3,915
Total operating expenses	<u>1,489,485</u>
Operating income (loss)	<u>(1,231,842)</u>
Non-operating revenues (expenses)	
Federal grants	1,144,063
State grants	138,241
Interest income	87
Total non-operating revenues (expenses)	<u>1,282,391</u>
Net income (loss)	50,549
Transfers	(63,169)
Net change in net position	(12,620)
Total net position, July 1, 2013	<u>135,427</u>
Total net position, June 30, 2014	<u><u>\$ 122,807</u></u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2014

	Food Service Fund
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 343,531
Cash payments to employees for services	(778,242)
Cash payments to suppliers for goods and services	(720,898)
Net cash from operating activities	<u>(1,155,609)</u>
Cash Flows from Noncapital Financing Activities	
Non-operating grants received	1,282,304
Transfers	(63,169)
Net cash from noncapital financing activities	<u>1,219,135</u>
Cash Flows from Investing Activities	
Interest on investments	87
Net cash flows from investing activities	<u>87</u>
Net increase in cash and cash equivalents	63,613
Cash and cash equivalents - beginning	(26,494)
Cash and cash equivalents - ending	<u>\$ 37,119</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities	
Operating income (loss)	\$ (1,231,842)
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Depreciation	3,915
Changes in assets and liabilities:	
Receivables	85,942
Inventory	(14,758)
Deferred Revenue	(54)
Accounts payable	1,188
Net Cash Provided by Operating Activities	<u>\$ (1,155,609)</u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
June 30, 2014

ASSETS	Trust/Agency Fund
	<hr/>
Current Assets	
Due from other funds	<hr/> \$ 219,128
Total assets	<hr/> <hr/> \$ 219,128
 LIABILITIES	
Current Liabilities	
Due to school groups	<hr/> \$ 219,128
Total net position and liabilities	<hr/> <hr/> \$ 219,128

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE- FIDUCIARY FUNDS
For the year ended June 30, 2014

	<u>Trust/Agency Fund</u>
Additions	
Revenues from student activities	\$ 650,698
Deduction	
Non-instructional expenses	<u>(610,239)</u>
Change in revenues over expenses	40,459
Due to school groups - beginning	<u>178,669</u>
Due to school groups - ending	<u><u>\$ 219,128</u></u>

See accompanying notes to financial statements

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lewis County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Lewis County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Lewis County School District Finance Corporation – The Lewis County School District resolved to authorize the establishment of the Lewis County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Lewis County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements:

The statement of Net Position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Construction Fund – The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

The District utilizes the proprietary fund type to account for the major funds: Food Service. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of USDA commodities on the financial statements, except as required by the Single Audit Act as presented on the Schedule of Expenditures of Federal Awards.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, “available” means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

On the government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Budget

The District is required by state law to adopt a budget annually. The budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the District approves the budget, it can be amended. Budget appropriations lapse at year-end.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. The District had a prepaid non-spendable fund balance of \$30,409 in the General Fund at June 30, 2014.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$7,555 restricted in the Construction Fund for future construction.

Committed fund balances are those amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$135,359 for sick leave as of June 30, 2014.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. The amount assigned related to encumbrances at June 30, 2014, was \$10,092 in the General Fund. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles, (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2014, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$1,866,761 and the combined bank balances totaled \$2,087,753. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2014.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Revenues and other governmental fund financial resource increments (i.e. bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available to finance expenditures of the fiscal periods. Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, collection date is the period from November 1 through December 31. Collections from the period November 1 through November 30 receive a two percent discount. The due date is the period from December 1 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien filed by the County Attorney.

NOTE 4. RETIREMENT PLANS

Kentucky Teachers' Retirement System

Pension Plan

The Lewis County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of the KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.605%.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy - In order to fund the post-employment healthcare benefit, four and one half percent (4.5%) of gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percents (.75%) from state appropriation and one and one half percent (1.50%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Lewis County School System's total payroll for the year was \$13,973,446. The payroll for employees covered under KTRS was \$9,810,348. For the year ended June 30, 2014, the Commonwealth contributed \$1,121,871 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2014 were \$194,012 which represents those employees covered by federal programs.

NOTE 4. RETIREMENT PLANS (CONTINUED)

County Employees Retirement System

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 18.89 percent.

The District's contribution for FY 2012 was \$573,695, FY 2013 was \$587,233, and FY 2014 was \$531,648.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2014, the estimate for those employees over the age of 55 with 5 or more years of service is \$321,000, in which \$135,359 is short term and \$185,641 is long term, both recorded on the District-wide financial statements.

NOTE 6. CAPITAL ASSETS

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of Net Position and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Life in Years</u>
Buildings and Improvements	40
Land Improvements	20
Technology Equipment	5
Vehicles	5-14
Food Service Equipment	7
Furniture and Fixtures	7
Other	10

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

GOVERNMENT FUNDS

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Cost				
Land	\$ 272,556	\$ -	\$ -	\$ 272,556
Land Improvements	2,055,778	-	-	2,055,778
Buildings & Improvements	24,776,055	163,103	-	24,939,158
Technology Equipment	3,514,307	-	-	3,514,307
Vehicles	4,052,593	296,935	-	4,349,528
Other	771,526	-	-	771,526
Totals at historical cost	<u>\$ 35,442,815</u>	<u>\$ 460,038</u>	<u>\$ -</u>	<u>\$ 35,902,853</u>
Less: Accumulated Depreciation				
Land Improvements	1,035,701	87,057	-	1,122,758
Buildings & Improvements	9,936,289	719,512	-	10,655,801
Technology Equipment	3,157,033	169,074	-	3,326,107
Vehicles	2,643,750	263,865	-	2,907,615
Other	530,087	41,444	-	571,531
Total accumulated depreciation	<u>17,302,860</u>	<u>1,280,952</u>	<u>-</u>	<u>18,583,812</u>
NET GOVERNMENT ASSETS	<u>\$ 18,139,955</u>	<u>\$ (820,914)</u>	<u>\$ -</u>	<u>\$ 17,319,041</u>

PROPRIETARY FUNDS

FOOD SERVICE	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Cost				
	\$			\$
Technology Equipment	23,950	\$ -	\$ -	23,950
General Equipment	383,025	-	-	383,025
	\$			\$
Totals at historical cost	<u>406,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>406,975</u>
Less: Accumulated Depreciation				
Technology Equipment	23,950	-	-	23,950
General Equipment	356,597	3,915	-	360,512
Total accumulated depreciation	<u>380,547</u>	<u>3,915</u>	<u>-</u>	<u>384,462</u>
NET ENTERPRISE FUNDS	<u>\$ 26,428</u>	<u>\$ (3,915)</u>	<u>\$ -</u>	<u>\$ 22,513</u>

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lewis County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The maturity date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2013			2014
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2003 Series	2,705,000	8/1/2023	1.6-4.2%	140,000	-	140,000	-
2005 Series	1,920,000	8/1/2025	3.0-4.25%	1,600,000	-	50,000	1,550,000
2006 Series	1,450,000	10/1/2026	3.6-4.1%	1,215,000	-	45,000	1,170,000
2008R Series	2,250,000	12/1/2019	2.75-3.25%	1,595,000	-	205,000	1,390,000
2008BR Series	1,145,000	12/1/2016	2.15-3.3%	470,000	-	145,000	325,000
2008C Series	2,690,000	9/1/2028	3.5-4.75%	2,450,000	-	70,000	2,380,000
2010R Series	2,195,000	4/1/2021	2.00-2.625%	1,625,000	-	190,000	1,435,000
2012 Series	1,110,000	6/1/1932	1.0-3.375%	1,065,000	-	45,000	1,020,000
2012R Series	2,070,000	8/1/2023	1.10-2.25%	2,035,000	-	30,000	2,005,000
TOTAL				\$ 12,195,000	\$ -	\$ 920,000	\$ 11,275,000

The District has entered into “participation agreements” with the School Facilities Commission. The Kentucky General Assembly created the Commission for the purposes of assisting local school districts in meeting school construction needs. The table on page 29 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District including amount to be paid by the Commission, at June 30, 2014, for debt service (principal and interest) are shown on the following page.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

**LEWIS COUNTY SCHOOLS
SCHEDULE OF DEBT PAYMENTS
AS OF JUNE 30, 2014**

YEAR	LEWIS COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2015	\$ 677,984	\$ 248,146	\$ 262,016	\$ 105,143	\$ 1,293,289
2016	694,588	231,008	260,412	97,996	1,284,004
2017	712,342	213,356	237,658	91,043	1,254,399
2018	729,170	195,316	215,830	84,505	1,224,821
2019	757,930	175,811	222,070	77,940	1,233,751
2020	774,865	153,783	225,135	71,000	1,224,783
2021	719,710	131,510	220,290	63,746	1,135,256
2022	518,440	108,107	231,560	56,350	914,457
2023	471,808	90,389	238,192	48,482	848,871
2024	489,785	72,978	235,215	40,207	838,185
2025	371,586	55,799	208,414	32,059	667,858
2026	386,149	38,971	203,851	24,290	653,261
2027	267,399	24,308	147,601	17,879	457,187
2028	185,714	13,806	104,286	13,262	317,068
2029	197,803	4,698	102,197	9,696	314,394
2030	-	-	65,000	6,919	71,919
2031	-	-	70,000	4,725	74,725
2032	-	-	70,000	2,363	72,363
TOTAL	\$ 7,955,273	\$ 1,757,986	\$ 3,319,727	\$ 847,605	\$ 13,880,591

The issue date, original amounts of the issue and interest rates are summarized below:

KISTA Issue	Original Amount	Maturity Dates	Interest Rates	2013 Balance	Additions	Retirements	2014 Balance
2004	240,189	3/1/2014	2.03%	22,445	-	22,445	-
2005	241,618	3/1/2015	1.27%	45,478	-	22,358	23,120
2006	251,621	3/1/2016	2.08%	75,226	-	27,402	47,824
2006B	335,557	3/1/2017	2.03%	139,663	-	36,032	103,631
2008	237,412	3/1/2018	2.08%	119,796	-	23,980	95,816
2009	267,583	3/1/2019	1.97%	159,800	-	26,156	133,644
2009C	277,722	3/1/2020	2.51%	192,221	-	26,617	165,604
2009R	711,240	12/1/2018	3.25%	452,044	-	69,843	382,201
2011	388,369	3/1/2021	3.98%	303,569	-	36,627	266,942
2013	396,753	3/1/2023	2.00%	396,753	-	43,489	353,264
2014	303,548	3/1/2025	3.00%	-	303,548	-	303,548
TOTAL				\$ 1,906,995	\$ 303,548	\$ 334,949	\$ 1,875,594

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

LEWIS COUNTY PUBLIC SCHOOL DISTRICT SCHEDULE OF KISTA DEBT PAYMENTS AS OF JUNE 30, 2014					
	LEWIS COUNTY BOARD OF EDUCATION		SCHOOL FACILITIES CONSTRUCTION		
<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2015	\$ 277,588	\$ 41,923	\$ 72,228	\$ 10,112	\$ 401,851
2016	247,572	34,142	73,562	8,289	363,565
2017	219,463	26,921	75,900	6,157	328,441
2018	185,580	20,512	79,186	3,831	289,109
2019	162,389	15,170	81,325	1,322	260,206
2020	132,999	10,467	-	-	143,466
2021	109,115	6,768	-	-	115,883
2022	67,045	3,822	-	-	70,867
2023	63,323	2,322	-	-	65,645
2024	28,319	850	-	-	29,169
TOTAL	<u>\$ 1,493,393</u>	<u>\$ 162,897</u>	<u>\$ 382,201</u>	<u>\$ 29,711</u>	<u>\$ 2,068,202</u>

NOTE 8. OPERATING FUND TRANSFERS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	Special Revenue	General	Indirect cost transfer	6,001
Operating	School Food Service	General	Indirect cost transfer	63,169
Operating	Capital Outlay	General	Property Insurance	53,860
Operating	Capital Outlay	Debt	Debt Payments	158,840
Operating	Building Fund	Debt Service	Debt Payments	771,038
Total Transfers				<u>\$1,052,908</u>

NOTE 9. DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance/net position. The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

Construction Fund	(\$138,210)
Food Service	(\$12,620)

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance program for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the district continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

The Board of Education is the defendant in a number of lawsuits arising principally in the normal course of operations and from alleged acts committed by individual(s) employed by the district and management. The Board is covered by insurance against this type of liability. At this time, the administration is unable to make an evaluation regarding the likelihood of an unfavorable outcome or any possible financial implication to the Board of Education.

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2014 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 12. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations now reflects this change in policy.

NOTE 13. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2014 was \$4,154,785. These payments were recorded as follows:

General Fund	\$ 3,580,333
Food Service	124,825
Debt Service	<u>449,627</u>
Total	<u>\$ 4,154,785</u>

NOTE 14. PRIOR PERIOD ADJUSTMENT

Due to the adaptation of GASB 65 previous bond issuance cost is now expensed instead of capitalized, therefore a prior period adjustment was necessary.

Net Position July 1, 2013	\$ 4,673,377
Prior Period Adjustment	<u>(124,909)</u>
Restated Net Position July 1, 2013	<u>\$ 4,548,468</u>

LEWIS COUNTY SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
From local sources					
Taxes					
	\$	\$	\$		
Property taxes	1,842,000	1,842,000	1,742,919	\$ (99,081)	-5.38%
Motor vehicle taxes	306,000	306,000	333,852	27,852	9.10%
Utility taxes	540,000	540,000	539,962	(38)	-0.01%
Unmined minerals taxes	300	300	272	(28)	-9.33%
Earnings on investments		5,500	4,846	(654)	-11.89%
Other local revenues	85,500	80,000	88,423	8,423	10.53%
State Sources					
SEEK	10,520,038	10,573,265	10,573,265	-	0.00%
On Behalf	3,508,302	3,508,302	3,580,333	72,031	2.05%
Other	50,250	50,250	49,547	(703)	-1.40%
Federal-Indirect	95,822	95,822	135,415	39,593	41.32%
Other	20,000	20,000	20,992	992	4.96%
Inter-fund transfers	113,940	126,428	123,030	(3,398)	-2.69%
Beginning Balance	725,000	613,943	885,138	271,195	44.17%
TOTAL REVENUES	17,807,152	17,761,810	18,077,994	316,184	1.78%
EXPENDITURES					
Instructional	9,425,923	9,458,125	9,396,703	61,422	0.65%
Student services					
Student	1,020,086	1,020,086	1,067,116	(47,030)	-4.61%
Instructional staff	361,463	361,463	347,583	13,880	3.84%
District administrative	621,237	621,237	469,303	151,934	24.46%
School administrative	1,563,856	1,563,856	1,599,501	(35,645)	-2.28%
Business	567,966	567,966	584,934	(16,968)	-2.99%
Plant operation and maintenance	1,736,683	1,749,171	1,575,226	173,945	9.94%
Student transportation	1,875,298	1,875,298	1,769,584	105,714	5.64%
Community Services	655	655	100	555	84.73%
Debt service	307,978	307,978	307,845	133	0.04%
Other	-	-	2,754	(2,754)	-100.00%
Contingency	326,007	235,975	-	235,975	100.00%
TOTAL EXPENDITURES	17,807,152	17,761,810	17,120,649	641,161	3.61%
Excess (Deficit) of Revenues Over Expenditures	\$ -	\$ -	\$ 957,345	\$ 957,345	5.39%

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

LEWIS COUNTY SCHOOL DISTRICT
SPECIAL FUND
BUDGETARY COMPARISON SCHEDULE
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
Intergovernmental - State	\$ 855,167	\$ 827,216	\$ 860,427	\$ 33,211	4.01%
Intergovernmental - Federal	1,957,605	1,955,816	2,057,703	101,887	5.21%
TOTAL REVENUES	<u>2,812,772</u>	<u>2,783,032</u>	<u>2,918,130</u>	<u>135,098</u>	<u>4.85%</u>
EXPENDITURES					
Instructional	2,021,802	2,003,664	2,071,853	(68,189)	-3.40%
Student services:					
Student	181,841	170,841	228,190	(57,349)	-33.57%
Instructional staff	233,443	233,443	254,626	(21,183)	-9.07%
District Administrative	141,878	141,878	108,127	33,751	23.79%
School Administrative	5,000	5,000	347	4,653	93.06%
Business	-	-	27,895	(27,895)	-100.00%
Student transportation	-	-	739	(739)	-100.00%
Community services	222,808	223,633	220,352	3,281	1.47%
Inter-fund transfers	6,000	6,001	6,001	-	0.00%
TOTAL EXPENDITURES	<u>2,812,772</u>	<u>2,784,460</u>	<u>2,918,130</u>	<u>(133,670)</u>	<u>-4.80%</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (1,428)</u>	<u>\$ -</u>	<u>\$ 1,428</u>	<u>0.05%</u>

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

LEWIS COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2014

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Non-major Govt. Funds
Revenues				
From local sources				
Property taxes	\$ -	\$ 275,904	\$ -	\$ 275,904
State sources				
SEEK	212,700	495,134	-	707,834
On Behalf	-	-	449,627	449,627
Total revenues	<u>212,700</u>	<u>771,038</u>	<u>449,627</u>	<u>1,433,365</u>
Expenditures				
Debt service	-	-	1,379,505	1,379,505
Total expenditures	<u>-</u>	<u>-</u>	<u>1,379,505</u>	<u>1,379,505</u>
Excess (deficit) of revenues over expenditures	<u>212,700</u>	<u>771,038</u>	<u>(929,878)</u>	<u>53,860</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	929,878	929,878
Operating transfers out	(212,700)	(771,038)	-	(983,738)
Total other financing sources (uses)	<u>(212,700)</u>	<u>(771,038)</u>	<u>929,878</u>	<u>(53,860)</u>
Net change in fund balances	-	-	-	-
Fund balance, July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2014	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

LEWIS COUNTY SCHOOL DISTRICT
LEWIS COUNTY HIGH SCHOOL ACTIVITY FUND
ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
For the year ended June 30, 2014

	Fund Balance		Disburse-		Fund Balance
ACCOUNTS:	June 30, 2013	Receipts	ments	Transfers	June 30, 2014
Academic Team	\$ -	\$ 3,839	\$ (3,838)	\$ -	\$ 1
Art	1,068	329	(1,143)	-	254
Autism Awareness	-	5,545	(4,451)	-	1,094
Band	1,971	33,091	(30,629)	(3,979)	454
Baseball	2,261	12,142	(13,867)	(378)	158
Basketball - Boys	4,483	17,294	(20,586)	1,164	2,355
Basketball - Girls	591	19,579	(23,168)	3,859	861
Beta Club	155	780	(891)	-	44
Boys Golf	-	6,352	(3,434)	(1,234)	1,684
Cheerleaders	72	11,936	(8,419)	-	3,589
Chorus	60	-	(175)	150	35
Seniors 2014	2,387	522	(2,415)	(494)	-
Seniors 2015	3,864	4,545	(6,813)	(369)	1,227
Juniors 2016	2,067	1,285	(642)	(45)	2,665
Colorguard	842	3,994	(3,821)	(317)	698
Cross Country	1	2,087	(2,642)	555	1
Drama	673	9,229	(7,834)	(938)	1,130
FCA	81	-	-	-	81
Football	4,184	23,683	(23,201)	123	4,789
Girls Golf	1	284	(473)	1,934	1,746
Girls Volleyball	3,135	6,254	(5,290)	-	4,099
Library	281	-	-	-	281
Lions Den Book Store	-	62	(62)	-	-
Math Support	1	-	-	-	1
Office	1,098	10,449	(9,839)	(187)	1,521
Pep Club	292	1,055	(613)	(580)	154
Poster Machine	71	165	(390)	270	116
ROTC	236	4,098	(3,906)	-	428
Saturday Junior League	115	-	-	-	115
Scholarship Fund	-	2,450	-	-	2,450
Senior Trip	-	30,619	(30,016)	(603)	-
Softball	1,991	7,972	(6,763)	468	3,668
Spanish	-	285	-	-	285
Sport Gate	8,708	54,521	(34,516)	(7,805)	20,908
Student Enhancement	1,280	8,706	(9,946)	(25)	15
Tennis	171	336	(2,675)	2,477	309
Track	-	1,092	(2,245)	1,154	1
TSA	811	6,738	(11,301)	4,600	848
Yearbook	10,430	11,230	(11,855)	200	10,005
Youth Service Center	555	844	(735)	-	664
TOTALS	\$ 53,936	\$ 303,392	\$(288,594)	\$ -	\$ 68,734

LEWIS COUNTY SCHOOL DISTRICT
ELEMENTARY AND MIDDLE SCHOOLS ACTIVITY FUNDS
ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
For the year ended June 30, 2014

<u>Schools</u>	<u>Fund Balance June 30, 2013</u>	<u>Receipts</u>	<u>Disburse- ments</u>	<u>Fund Balance June 30, 2014</u>
Elementary				
Lewis County Central Elementary	\$ 28,465	\$ 118,894	\$ (112,621)	\$ 34,738
Garrison Elementary	25,825	43,664	(36,079)	33,410
Tollesboro Elementary	27,450	54,449	(49,928)	31,971
Laurel Elementary	12,309	30,126	(26,362)	16,073
Middle				
Lewis County Middle School	22,999	78,298	(73,271)	28,026
Foster Meade Area Vocational	<u>7,685</u>	<u>21,875</u>	<u>(23,384)</u>	<u>6,176</u>
TOTALS	<u>\$ 124,733</u>	<u>\$ 347,306</u>	<u>\$ (321,645)</u>	<u>\$ 150,394</u>

LEWIS COUNTY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<u>Program Title</u>	<u>MUNIS Number</u>	<u>Federal CFDA No. Cluster</u>	<u>Disbursements</u>	<u>TOTAL FOR CFDA #</u>	
U. S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Kentucky Department of Education:</i>					
<u>Child Nutrition Cluster</u>					
School Breakfast Program - Child Nutrition Cluster	203x	10.553	\$ 730,712		
National School Lunch Program - Child Nutrition Cluster	205x	10.555	280,854	1,011,566	**
Fresh Fruit and Vegetable program	215x	10.582	9,992	9,992	
<i>Passed Through Kentucky Department of Agriculture:</i>					
Commodity Supplemental Food Program	201x	10.565	106,644	106,644	
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>1,128,202</u>	
U. S. DEPARTMENT OF EDUCATION					
<i>Direct from U.S. Department of Education</i>					
Title IV: Carol M. White Physical Ed Program	5321F	84.215F	6,777		
Title IV: Carol M. White Physical Ed Program	5322F	84.215F	3,735	10,512	
<i>Passed Through Kentucky Department of Education:</i>					
<u>Title I: Part A Cluster</u>					
Title I: Part A - Grants to LEA	3100	84.010	252		
Title I: Part A - Grants to LEA	3101	84.010	2,912		
Title I: Part A - Grants to LEA	3102	84.010	1,198		
Title I: Part A - Grants to LEA	3103	84.010	90,361		
Title I: Part A - Grants to LEA	3104	84.010	1,034,285		
Title I - Prof Dev - Dist Improvement	310A	84.010	40		
Title I - Parent Involvement	3104M	84.010	33,111		
Title I - Parent Involvement	3108D	84.010	544		
Title I - Prof Dev - Dist Improvement	3109D	84.010	544		
ARRA - Title I: Part A - Grants to LEA	3919	84.389A	6,995	1,170,242	**
<u>Special Education Cluster</u>					
IDEA B - BASIC	3370	84.027	957		
IDEA B - BASIC	3372	84.027	4,463		
IDEA B - BASIC	3373	84.027	35,288		
IDEA B - BASIC	3374	84.027	405,839		
IDEA B - Preschool	3432	84.173	3,823		
IDEA B - Preschool	3433	84.173	10,805	461,175	**
Career and Technical Education (Perkins)	3480	84.048	222		
Career and Technical Education (Perkins)	3481	84.048	3,326		
Career and Technical Education (Perkins)	3482	84.048	4,657		
Career and Technical Education (Perkins)	3483	84.048	6,856		
Career and Technical Education (Perkins)	3484	84.048	28,759		
Career and Technical Education (Perkins)	3488	84.048	229	44,049	
<u>Educational Technology State Grant Cluster</u>					
ARRA - Title II:Part D - Education Technology	4251C	84.386A	7,070		
ARRA - Title II:Part D - Education Technology - Competitive	4860	84.386A	4,781	11,851	
21st Century Community Learning Center	5500B	84.287	4,083		
21st Century Community Learning Center	5502	84.287	1,527		
21st Century Community Learning Center - Additional Money	5503	84.287	1,937		
21st Century Community Learning Center - YPQA	5502J	84.287	953		
21st Century Community Learning Center - Summer Program	5503S	84.287	5,000	13,500	
Reading First Grant	5089R	84.357	937	937	
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3501	84.358	100		
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3504	84.358	42,864	42,964	

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

LEWIS COUNTY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<u>Program Title</u>	<u>MUNIS Number</u>	<u>Federal CFDA No.</u>	<u>Disbursements</u>	<u>TOTAL FOR CFDA #</u>	
U. S. DEPARTMENT OF EDUCATION (CONTINUED)		<u>Cluster</u>			
Title II: Part A - High Quality Teachers & Principals	401A	84.367	1,000		
Title II: Part A - High Quality Teachers & Principals	4011	84.367	661		
Title II: Part A - High Quality Teachers & Principals	4013	84.367	72,276		
Title II: Part A - High Quality Teachers & Principals	4014	84.367	166,491	240,428	**
Striving Readers	6941	84.371A	309	309	
Race To The Top	4521	84.413	9,388	9,388	
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>2,005,355</u>	
U.S. DEPARTMENT OF LABOR					
<i>Under contract by and between the Buffalo Trace Area Development District</i>					
Workforce Investment Act - Youth Activity	5883	17.255	6,799		
Workforce Investment Act - Youth Activity	5884	17.255	105,829	112,628	
U. S. DEPT. OF DEFENSE					
<i>Passed through KY Dept of Military Affairs</i>					
JROTC	5044	12.000	58,775	58,775	
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>3,304,960</u></u>	

Tested as Major Program or Cluster **

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of Lewis County Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$106,644.

LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2014

Section 1. Summary of Auditor's Findings

Financial statements:

Type of auditor's report issued: unmodified
Internal control over financial reporting Yes No
• Material weaknesses identified? X
• Significant deficiencies identified that are not considered to be material weaknesses? X None Reported
• Noncompliance material to financial statements noted? X

Federal Awards:

Internal control over major programs Yes No
• Material weakness identified? X
• Significant deficiencies identified that are not considered to be material weaknesses? X None Reported

Type of auditor's report issued on compliance for major programs: unmodified
Yes No
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.010, 84.389A	Title I Cluster
84.027, 84.173	Special Education Cluster
84.367	Title II, Part A- High Quality Teachers & Principals

- Dollar threshold used to distinguish between type A and type B programs \$300,000
- Auditee qualified as low-risk auditee? Yes X No

Section 2. Financial Statement Findings

Current Year: No matters were reported.

Prior Year: No matters were reported.

Section 3. Federal Awards Findings and Questionable Costs

Current Year: No matters were reported.

Prior Year: No matters were reported.

LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2014

Prior Audit Findings:

No matters were reported.

ROSS & COMPANY, PLLC
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Members of the Board
Lewis County School District
Vanceburg, Kentucky

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lewis County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lewis County School District's basic financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lewis County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lewis County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lewis County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lewis County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the Independent Auditor's Contract.

We noted certain matters that we reported to management of Lewis County School District in a separate letter dated November 6, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive style.

Ross and Company, PLLC
November 6, 2014

ROSS & COMPANY, PLLC
Certified Public Accountants
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Members of the Board
Lewis County School District
Vanceburg, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Lewis County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Lewis County School District's major federal programs for the year ended June 30, 2014. Lewis County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lewis County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract.. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewis County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lewis County School District' compliance.

Opinion on Each Major Federal Program

In our opinion, Lewis County School District complied, in all material respects, with the types compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2014.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Report Internal Control over Compliance

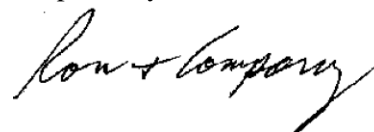
Management of Lewis County School District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lewis County School District's internal control over compliance with the types requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lewis County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
November 6, 2014

ROSS & COMPANY, PLLC
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Vanceburg, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Lewis County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

Current Year Findings –

2014-01: Deposits over \$100, (LES)

Statement of Condition: Deposits of over \$100 were not made on the date of receipt.

Criteria for Condition: All money collected should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit it may be held in a secure location per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Money was held for a series of days before being deposited despite being over \$100.

Effect of the Condition: Money is not deposited in a timely manner and is susceptible to theft.

Recommendation for

Correction: Deposits over \$100 should be delivered to the bank on the same day as the money is collected.

Response or Additional Information: LES bookkeeper will be reminded of the deposit requirements.

RECOMMENDATIONS & COMMENTS
TO MANAGEMENT
LEWIS COUNTY SCHOOL DISTRICT
JUNE 30, 2014
(Continued)

2014-02: Ticket Sales (LCHS)

Statement of Condition: Ticket Sales were not turned in by the next business day following an event.

Criteria for Condition: Ticket sales money should be deposited in the school safe or night depository if collected after business hours, or the next business day per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Ticket sales and concession sales were held over a period of time before being deposited.

Effect of the Condition: Money is not deposited in a timely manner and is susceptible to theft.

*Recommendation for
Correction:* Ticket sales should be deposited the day after every event.

Response or Additional Information: The LCHS bookkeeper and I [Finance Officer] have discussed this area.

2014-03: Handling Cash, (GES, TES)

Statement of Condition: Money/checks were held for a period of time before being submitted to the school treasurer.

Criteria for Condition: All money collected by a teacher/sponsor shall be given to the school treasurer on the day of collection per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Teachers/sponsors held checks until the fundraiser was over before submitting to the treasurer.

Effect of the Condition: Money is not deposited in a timely manner.

*Recommendation for
Correction:* All money should be delivered to school treasurer on date of collection.

Response or Additional Information: The GES and TES bookkeepers have been made aware of this occurrence and will remind teacher and sponsors of this requirement.

RECOMMENDATIONS & COMMENTS
TO MANAGEMENT
LEWIS COUNTY SCHOOL DISTRICT
JUNE 30, 2014
(Continued)

2014-04 Multiple Receipt Forms, (LES)

Statement of Condition: When money collected was submitted to the school treasurer, multiple receipt forms were not included.

Criteria for Condition: The Multiple Receipt Form is used as documentation of the receipt of funds in lieu of individual receipts. This form will be given to the school treasurer by the teacher or sponsor collecting the funds and a receipt will be written for the total on the form to the teacher or sponsor per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Money collected through fundraising was submitted to treasurer without multiple receipt forms or any other documentation. Sales were recorded on MRF and inventory worksheet and turned in to school treasurer at a later date.

Effect of the Condition: Limited documentation of money received from students/parents/teachers.

*Recommendation for
Correction:* The Multiple Receipt Form and collected money must be given to the school treasurer daily.

Response or Additional Information: LES will be reminded of the multiple receipt form requirements.

2014-05: Issuance of Receipts, (TES)

Statement of Condition: Pre-numbered receipts shall be issued on the date of collection/receipt.

Criteria for Condition: Pre-numbered receipts shall be issued any time money is received per Accounting Procedures for Kentucky School Activity Funds, "Redbook"

Cause of the Condition: All copies of receipts are kept by school treasurer and not issued to person remitting money to the treasurer.

Effect of the Condition: Receipts are not being utilized properly or effectively.

*Recommendation for
Correction:* Receipts should be issued at the time of receipt with amount and the person the money was received from.

Response or Additional Information: TES bookkeeper will start issuing receipts to remitters of funds.

RECOMMENDATIONS & COMMENTS
TO MANAGEMENT
LEWIS COUNTY SCHOOL DISTRICT
JUNE 30, 2014
(Continued)

2014-06: Check Made Payable to "Bank", (TES)

Statement of Condition: No checks shall be made payable to the bank.

Criteria for Condition: Checks shall not be made payable to a bank. Petty cash or change fund checks shall be made payable to the sponsor or to the responsible person per Accounting Procedures for Kentucky School Activity Funds, "Redbook".

Cause of the Condition: Check # 8684 was made payable to Citizen Deposit Bank for start-up change.

Effect of the Condition: Checks made payable to the bank are susceptible to theft.

Recommendation for

Correction: Change cash should be made payable to sponsor or the responsible person for the event.

Response or Additional Information: TES will start making applicable checks to the sponsors instead of the bank.

2014-07 Concession Form (F-SA-17) should be used for Concessions (TES)

Statement of Condition: Concessions were not documented on the Concession form

Criteria for Condition: The Sales from Concessions/Bookstore/School Store/Pencil Machine Form (Form F-SA-17) is to be used each time money is collected from these activities and turned in with the money to the school treasurer per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Inventory worksheet was completed on a weekly or biweekly basis for snack sales however; the concession form was not completed when remitting money to the treasurer.

Effect of the Condition: There was no documentation for the concession receipt.

Recommendation for

Correction: The Concession form must be completed for every event money is collected from the activity. There shall be two different individuals involved: one individual to collect and count the monies from sales and a separate individual to complete the Inventory Control Worksheet (F-SA-5).

Response or Additional Information: TES will begin completing concession forms.

RECOMMENDATIONS & COMMENTS
TO MANAGEMENT
LEWIS COUNTY SCHOOL DISTRICT
JUNE 30, 2014
(Continued)

Prior year comments:

- 2013-01: Deposits over \$100, (Redbook) (REPEATED)
- 2013-02: Ticket Sales (Redbook) (REPEATED)
- 2013-03: Multiple Receipt Forms, (Redbook) (REPEATED)
- 2013-04: Use of Purchase Orders, (Redbook) (CORRECTED)
- 2013-05: Use of Concession Receipt Forms, (Redbook) (REPEATED)
- 2013-06: Cash Used for Purchase of Team Meals, (Redbook) (CORRECTED)

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC
November 6, 2014